RICHARD RUSSELL'S DOW THEORY LETTERS INCORPORATED

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April 15, 1992 **LETTER 1093**

Apr. 3 DJIA 3249.11; PTI 3450; A-D Ratio -10.58
Apr. 10 DJIA 3255.37; PTI 3447; A-D Ratio -10.61
Dow Yield: 2.85%; Dow Price/Earnings: 57.6
Dow 200-day MA: 3084; Dow 30-day MA: 3259
Dow Times Book Value: 2.44; PTI 89-day MA: 3443
Percentage of Undervalued Blue-chips: 9%

CONTAINMENT: Two years ago the value the Japanese placed on the real estate under the city of Tokyo was equal to the value of all the real estate in the United States. Ten years ago the Nikkei stock average was 3,000. On the last day of December 1989 the Nikkei (ballooned by wild speculation based on fantastic land values) closed at 38,915. The Japanese authorities, frightened by this incredibly inflated picture, believed they could gradually deflate the Japanese "bubble economy" and thereby execute a "soft landing." In other words, they believed they could contain the decline. They couldn't, and since January 1990 we have watched the great Japanese bubble bursting.

During the 1980s the US created a huge speculative bubble in the form of debt. The federal government, corporations, individuals, banks, states, municipalities, all took on massive amounts of debt (as far as the federal government itself is concerned, this is still going on). Fearful of what was happening, the Fed believed that it could gradually let the air out of the debt balloon by cutting off credit (shrinking the money supply). The process deflated real estate prices -- and the S&L industry collapsed along with many banks. Faced with a potential unraveling of the financial system, the government rushed in with a variety of "safety nets." At the cost of tens of billions of dollars in new federal debt, the economy was held together. Nevertheless, the US economy slipped into what many termed a "contained depression."

So far, the US debt bubble has been deflating without bursting. The "would-be depression" has been contained. Last week 100 economists announced that "the recession is over" (although they urge an additional $50 billion in government deficit spending).

Questions: Is the recession really over? Will containment work in the US? Will Japan's bursting bubble leave the world's other economies unharmed? Is the US stock market preparing for better times ahead -- or is Wall Street forming one of the great market tops of all times? We'll see. No one, repeat NO ONE, has the answers at this time.

THE MARKETS: Price Action: The following is a record of peaks recorded by some of the indices and averages that I follow. I think the list is significant.

D-J Utility Av. recorded its high of 226.15 on Dec. 31;
S&P 500 Comp. hit its high of 420.77 on Jan. 15;
NYSE Comp. struck its high of 231.84 on Jan. 15;
Advance-decline ratio hit high of -8.43 on Feb. 12;
Value Line Comp. struck its high of 266.85 on Feb. 12;
D-J Transportation Av. hit its high of 1467.67 on Feb. 20;
NYSE Financial Av. recorded its high of 177.72 on Mar. 2;
D-J Industrial Av. hit its high of 3290.25 on Mar. 3;
Primary Trend Index (PTI) hit its high of 3477 on Mar. 20.

The Dow is now only 3.3% off its March high. The broader S&P 500 is 6% off its January high, and the NASDAQ Composite is 11% off its February high.

* *

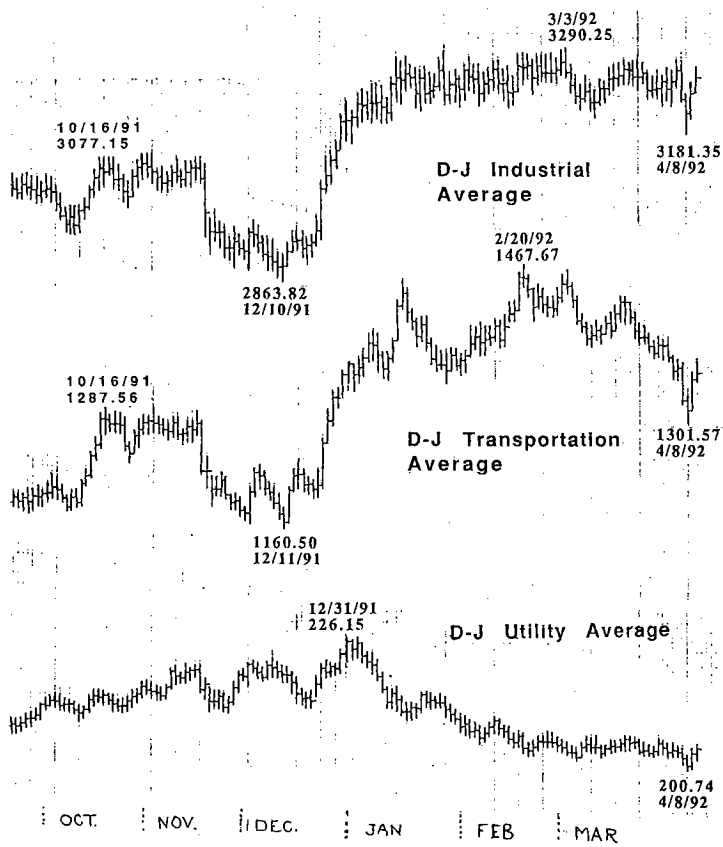
On April 3 the D-J Transportation Average closed at 1348.28, thereby cracking its previous January support level. On April 8 the Industrial Average confirmed by breaking below its important 3200 support level. Thus the tight "line" structure in the Dow (actually a range bordered by 3290 on the upside and 3200 on the downside) was finally shattered.

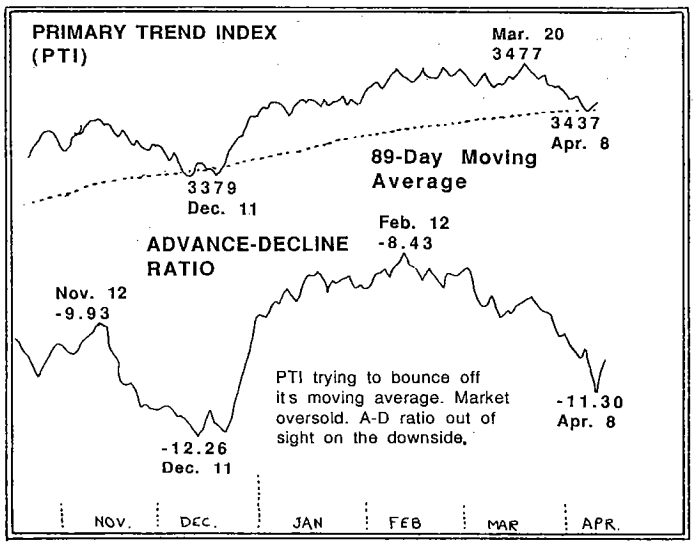
On April 8 my Primary Trend Index (PTI) broke four points below its 89-day moving average. I am calling this a switch from a bullish mode to "neutral." But a one-day penetration of four points is not enough to bring out the bear. The PTI has done this before, and turned up. If it's really a primary bear market, we're very early in the game, and there's no hurry to put a label on it. In other words, I want to see more.

The Dow had been resisting the decline, at least it has up until April 7. Damage to the Dow has been minimal. As far as the rest of the US market is concerned, damage to stocks so far in 1992 has been fairly extensive, worse than we would surmise from simply looking at the D-J Industrial Average.

As noted in the Last Letter, the advance-decline ratio (see page 2 chart) has wiped out all of 1992's gains and more. Daily new lows, which provide a remorseless tally of losses, have risen steadily, and now surpass daily new highs. The worst damage, however, has been on the over-the-counter market where the NASDAQ Composite has dropped almost 11%. The Wilshire 5,000, which is expressed in dollars (and is a good approximation of the the value of all US stocks), shows that so far in 1992 the markets have erased $196 billion in stock values.

INTERNATIONAL PICTURE: Leonard Silk, the grand old man of the *NY Times*' Business Section, headlined his column last





week, "Facing Dangers of a Global Bust." Silk continues, "The American economic recovery is being threatened by a global recession. In all the major countries, including this one, the recessions of the 1990s have proved to be deeper and more tenacious than the consensus forecasts of economists or governments."

In Germany inflation is running at 4.7%, and by German standards that's a near-emergency. Therefore, the talk is of a possible boost in German interest rates (which are high now). The high German rates are putting a squeeze on the rest of Europe, where most nations are trying to get out of recession and resent high interest rates.

The question of whether Japan's bear market will impact on the rest of the world was addressed by four experts in the April 6 issue of the Dow Jones publication, *Barron's*. The consensus: the Japanese situation was decidedly bearish for the rest of the world. But on the same day the Dow Jones publication, the *Wall Street Journal*, headlined an article, *"Fall in Japanese Stocks Isn't Likely to Depress U.S. Issues, Experts Say."* So it's a question of which publications you read and which experts you care to believe.

Followers of the so-called "long wave" or Kondratieff wave, are saying, "This is it." They're convinced that the world is now caught in the grip of the 50-60 year down-cycle, and that despite what the US or any other government can do in the way of containment, the long wave will have its way .

My opinion: The enormous pressure of world debt is weighing down on all the world's economies. If the deflationary pressures continue I would expect the various central banks (in due time) to enter into a policy (as the US already has) of all-out re-inflation.

JAPAN and the US: On April 6, as margin accounts were called, the Japanese Nikkei 225 Index dropped below 18,000 for the first time in five years. From its December 1989 high of 38,916, the Nikkei has now lost roughly 55% of its value. Japan is under intense pressure. Land and real estate values in Japan are sinking and Japanese banks are being forced to raise cash (don't miss the April 6 article in *Barron's*).

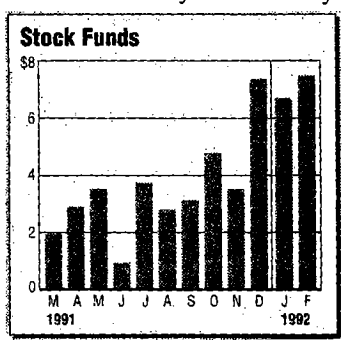
What does this mean for the US? For one thing, it is clear that one of the world's leading economies is now in the throes of a primary bear market. I've said this often, but I'll repeat it: primary bear markets are almost always international in scope. Let me put it another way: it would be most unusual if Japan was experiencing a primary bear market and the US, Germany, France, the Netherlands, Australia and all the other nations were in primary bull markets. The same deflationary forces that are shattering Japan's markets should, to varying degrees, affect the markets and the economies of the rest of the world.

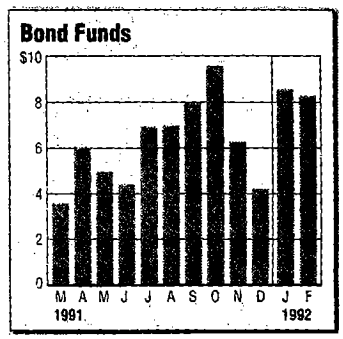
During the '80s it was Japanese money and Japanese venture capital that fired world markets. Japanese money bid works of art to outrageous extremes. Japanese money sent the price of US real estate through the roof. Japanese money would buy 30% and even 40% of new US Treasury bond issues. Japanese money bought up half of the real estate in downtown LA, and Japanese money gobbled up most of the hotels along the coast of Hawaii.

Let me put it this way -- Japanese money is now being repatriated back to Japan. Japan is experiencing "the big squeeze," and now Japan wants increasing portions of its money back. So if you think Japan is going to continue to act like the Japan of the 1980s, if you think Japan is going to be a big buyer of US debt, if you think Japan is going to be a factor in inflating prices of art or real estate or anything else, dream on. It's not going to happen.

BACK IN THE USA: If the American public is worried or pessimistic about the economy or about their own finances, it most certainly isn't reflected in their attitude towards the markets. In December the American public bought a record $7.4 billion of equity mutual funds. In January they bought $6.7 billion of equity mutual funds. And then in February the public bought a record $7.5 billion of funds. This is what you call, "piling into the market with both feet."

Americans weren't slouches with bonds either -- the public bought a whopping $8 billion worth of assorted bond funds in both the months of January and February.





Technical notes: I've been trading reports with Joe Granville since 1961. Over the years Joe has been one of the true innovators of this industry, and time after time he has added valuable new tools to technical analysis.

One of Joe's creations is his count of the number of NYSE issues which are within a point or less of new 52-week lows and a count of the number of stocks within a point or less of new 52-week highs. This study can be extremely valuable in gauging the underlying condition of the market.

For instance, currently there has been a build-up on the low side of the list, and this goes along with the poor performance of the advance-decline ratio (see page 2 chart). Currently, Joe counts 391 NYSE stocks within a point or less of their 52-week lows while less than 100 stocks are within a point or less of their 52-week highs. Furthermore, the low end of the list is building, and in the past this kind of action has tended to act like a magnet. In other words, a build-up on the low side acts to draw the broad market towards the downside. This kind of action is all the more dramatic when the picture is masked (as now) by "hopeful" action on the part of the Dow.

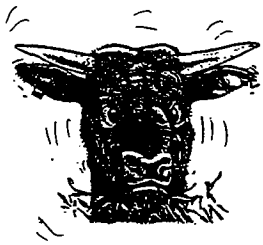
Conclusion: the understructure of this market is deteriorating, and any sharp break is going to produce a surprising number of new lows on the NYSE.

POLITICAL THOUGHTS: A new *Times Mirror* nationwide poll shows that 66% of the public is dissatisfied with the current presidential contenders. No third party candidate has ever won the White House, but if there was ever a favorable year for the maverick, 1992 is it. Bush is not loved by the electorate, but at least we know what we have in Bush (and it's not very much). Clinton is distrusted, and Brown is considered "too far out." Perot

is a third party wild card, but no third party candidate ever won the presidency. Of course, no third party candidate ever had $100 million to spend on an election (Bush spent $30 million in his last campaign).

My feeling is that if it looks as though Bush is weakening, there'll be trouble in the markets. The prospect of Bush losing (regardless of whether that turns out to be good or bad for the nation) will not be conducive to higher stock prices. Wall Street can adjust to anything but instability. The political situation today is as unstable as I've ever seen it.

INVESTMENT POSITION: The bull's still in the box, but after the action of the last two weeks he's a bit shaky. What I don't like in the current situation is that the advance-decline ratio is now diverging broadly with the Averages. And you can see that in internal market action. For instance, on April 9 the Dow surged 43 points to 3224.96, but there were only 11 new highs on the NYSE.



On April 8 the PTI made a one-day penetration of its moving average, then turned up. If you study the page 2 chart you'll see that the same thing occurred in early December when the PTI twice broke below its 89-day moving average. But those slight penetrations never followed through on the downside. Remarkably, the same thing seems to be happening again, so let's sit tight and await developments.

When a primary bear market finally does arrive, the PTI will break decisively below its declining 89-day moving average, following which the PTI and its moving average will continue to decline for months on end.

Are stocks a buy here? Well, before you load up, read this from the latest copy of *IQ Trends*, published by my friend, Gerry Weiss, here in La Jolla. *"The price/earnings ratio for the D-J Industrial Average is currently 57-to-one. In 1987 at the price peak the P/E ratio was 21-to-one. With interest rates in the 4.0% to 4.5% area, Benjamin Graham notes in his classic book, 'The Intelligent Investor,' that the P/E ratio should be 15-to-one. Obviously, the P/E ratio is now 280% higher than conventional wisdom dictates. If the price of the Dow were to stay in the 3200 area, earnings would have to rise an unlikely 280% (!) to bring the ratio down to 15-to-one. A 73% decline in the price of the Dow would accomplish the same thing. We probably will see some of both -- a rise in earnings and a decline in stock prices, eventually reducing the P/E ratio to a reasonable figure. We also remember that at the bottom of the bear markets in 1974 and 1982, the price/earnings ratio for the Dow fell below 7-to-one."*

BUBBLES and SUBSEQUENT BUSTS: Barton Biggs, Chairman of Morgan Stanley Asset Management, has presented some remarkable and fascinating figures on past bubbles and busts. Thought: every bubble is built on the massive and speculative use of credit. Every bust has to do with a credit collapse. Following is a list of past bubble and bust experiences:

The Dutch tulip mania (1634-1637) lasted 36 months. During that time tulip prices appreciated an incredible 5,900%. The subsequent bust lasted 10 months and knocked tulip prices down **93%.**

The **Mississippi Shares** bubble (1719-1721) lasted 13 months during which time the shares appreciated 6,200%. The bust lasted 13 months and dropped price **99%.**

The **South Sea Shares** bubble (1719-1720) carried on for 18 months and took those shares up 1,000%. The subsequent bust lasted 6 months, during which time the shares dropped **84%.**

The **1921-29 bull market** in stocks in the US took the Dow up 486%. The bear market bust lasted 33 months and took the Dow down **89%.**

The **Mexican stock market** boom (1978-81) took those stocks up 785% in a period of 30 months. The bear market bust wiped out **73%** of the average in 18 months.

Between 1979 and '82 the **silver bubble** took the metal up 710%. In the 24 months bust that followed, silver dropped **88%.**

During 1970 to '74 **Hong Kong stocks** rose 1,200%. The ensuing bear market bust lasted 20 months and dropped prices **92%.**

The **Taiwanese stock bubble** (1986-'90) took stocks up 1,168%. The 12 month bust that followed dropped those stocks **80%.**

OK, let's turn to today's Japan. The 1965 to '89 rise took **Japanese stocks** up 3,720%. The bear market bust, so far, has dropped Japanese stocks **54%.** Question: Is that all there is? Answer: Previous experience with the aftermath of bubbles would indicate more downside to come, but we'll have to wait to see.

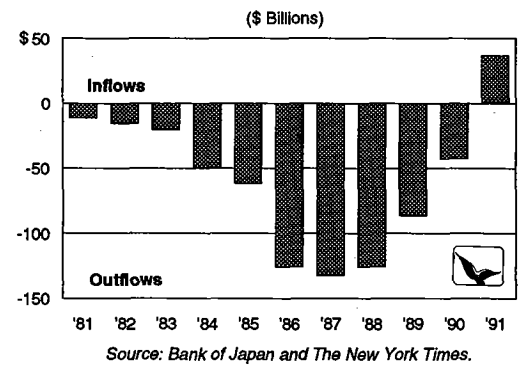
Here's a final thought. The 1974 to '92 bull market rise took the Dow up **470%** without an intervening major bear market decline. Question: Will the Dow push higher, or is the bubble about to burst?

At any rate, I thought the above data was interesting and well worth knowing about.

NOTES & QUOTES: I don't think most people understand the implications of the Japanese collapse. This is from the April 4 *International Herald Tribune*: "For some of Japan's investors, who hold $140 billion of US assets, America resembles a financial black hole. Many of the same investors who make headlines paying staggering sums for US businesses and real estate are stuck with cash-draining resorts, half-empty skyscrapers, banks burdened by problem loans, overpriced art works, sluggish manufacturing operations and costly manufacturing operations and costly management problems."

The collapse in Japan comes down to this: the Japanese NEED MONEY. This chart (courtesy *United & Babson Investment Report*) shows the switch. Japan's capital flow is reversing; they're calling the money back!

JAPAN'S CAPITAL FLOW REVERSES



Source: Bank of Japan and The New York Times.

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I have a 36 year old daughter who will give birth to her second son this month (yep, she had amniocentesis so she knows it's going to be a boy). That makes me a double grandpa, and I should be feeling kind of old. But wait -- I also have an eleven year old daughter, and I attend meetings with her grammar school teacher, so that makes me feel kind of young. Oops, then I have a boy who just turned 14, and he's now taller than I am (I'm five foot ten), and that makes me feel smaller and maybe a little older. But face it, you're getting older when you see a movie like the *Memphis Belle*, and your eyes moisten when you remember that you were there.

You're getting older when you remember that your dad and mom were born in a different century -- my father was born in 1892, and my mom in 1898. And you're getting older when you remember that when you were a kid there was no TV, and airplanes still looked like flying antiques, and radio was still a novelty, and horses were still hauling carts around the street of New York. That was when every young executive dreamed of someday being a $10,000-a-year man. Remember those days, old timers?

* *

Investor's Business Daily continues to add useful technical tools to its terrific tables. The latest is a rating on each stock based on computer-tabulations of accumulation or distribution. The ratings run from A (active accumulation) to E (active distribution). Their circulation is now up to 153,000 per day.

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Two new investment magazines have hit the newsstands, and I like them both. The first is *"Smart Money"* published jointly by Dow Jones and Hearst. (PO Box 7536, Red Oak, IA 51591). The mag is well worth perusing, and as usual with any periodical there are some articles worth reading. The second magazine is published by the Fidelity group and is entitled *"Worth"* (PO Box 5122, Pittsfield, MA 01203). The April/May issue is excellent, an article on older fathers with young kids (which, of course, interested me), and a great comic/disaster piece entitled *"Alan Greenspan's Week in Hell."* The Greenspan piece is worth the price of the magazine, don't miss this one.

Speaking of publications, I'm becoming addicted to the *International Herald Tribune*. The longer I read it the better I like it. The paper is truly international, and it has the world's most extensive news-gathering network, including eight of its own news bureaus plus all the many bureaus of its joint owners, the *Washington Post* and the *New York Times*. If I had to read a single paper for a comprehensive daily world view, I would pick the *International Herald Tribune*. Try it, (800) 882-2884.

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The Worst: Following is a list of the highest or worst all-around tax states (figures include sales, property and income taxes as a percentage of total area income). The District of Columbia heads the list with taxes at 17.7%. New York next at 16.6%. Alaska 16.4%. Hawaii 15.%. Minnesota 14%. Maine 13.7%. Wisconsin 13.6%. New Mexico 13.5%. Wyoming 13.5%. The US average is 12.3%.

* *

Want to know what's happening in Hawaii? This from friend Bert Dohmen [he writes the *Wellington Letter* out of Honolulu: (800) 992-9989]. "The hotel business nationwide has taken it on the chin. But in Hawaii business was still relatively good until 18 months ago. Then it collapsed. Per capita the state of Hawaii probably has more luxury hotel rooms than any place on earth. The new Grand Hyatt in Maui reportedly cost over $800,000 per room to build. It's beautiful. Experts estimate it will take $750 per night room rate just to break even. Instead they charge $300. It's owned by Japanese firms. They have very deep pockets. The hotel business never really came back after the Mideast War. The general manager of one luxury hotel in Maui said, 'Last year was bad. This year is ugly.' In late 1989 I predicted that within two years you could stay in the most beautiful hotels in the world, in Hawaii, for possibly as little as $50 a night. We're not quite there yet, but rates are already down 60% in some of the most luxurious hotels you will ever see. Come for a visit while the bargains last. It will be the greatest vacation you ever had."

* *

What's a Democrat to do? This is from Michael Kinsley's article in the super liberal *New Republic*: "Many Democrats perhaps have been thinking the way I have about our party's presidential nomination. For many months my position was: I'm for Clinton - just don't tell me anything about him. More recently my position has been, 'Dammit, I *told* you not to tell my anything about him' . . . The other day I called my guru, Charlie Peters, editor of the *Washington Monthly* and a Southerner, to get the party line. What do we think of Clinton now? 'Ah can't decide,' said Charlie in some agony. 'Is he too much of a liar?' That is exactly the right question, in the spirit of 1992. Of course he's a liar. They're all liars. But is he too much of a liar?"

* *

About Ross Perot. A week ago a surprised Perot said, regarding getting on the ballots of 50 states. "I didn't think this would happen, because I thought the process was too complicated. But they're making it happen. It looks now like they will do it, and at that point, I've said I'll run." Perot has now put 1,200 phone lines in his Dallas headquarters, and the word is that the phones never stop ringing.

* *

They'll Believe Anything Dept: On April 1 on "The Talk of the Nation" radio show, the voice of Richard Nixon astonished listeners by announcing, "Having marched up this hard road and won back your confidence, I ask you once again, my fellow Americans, to make me your president." He added,"I did not do anything wrong, and I promise never to do it again." According to the station, the phones rang off the hooks. But it was April Fools, and the voice was that of impressionist Rich Little. But who knows, maybe, just maybe -- nah.

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First hand info is always interesting. This from subscribers in Chico, CA. "My old air force chum, world traveler, just back from China, confirms your observations in Letter #1091. Says old guard earlier tried to whip coast areas (including Hong Kong) in line by decreeing Mandarin, not Cantonese (spoken in hot coastal areas), and closed down classes in English. Now coastal areas say, 'forget it,' resumed Cantonese and reopened English classes. Further, says the coast is openly defiant and would unite with Taiwan and wage civil war before bowing to old guard geezers. The China-appointed governor of Hong Kong and his assistant are 90 plus years of age. Time is going to solve this problem soon!"

Russell comment: Events are changing rapidly in China and even the old guard is now espousing "economic reform." As for Hong Kong which will be taken over by China in 1997, the word is, "It's not what China will do to Hong Kong, it's what Hong Kong will do to China."

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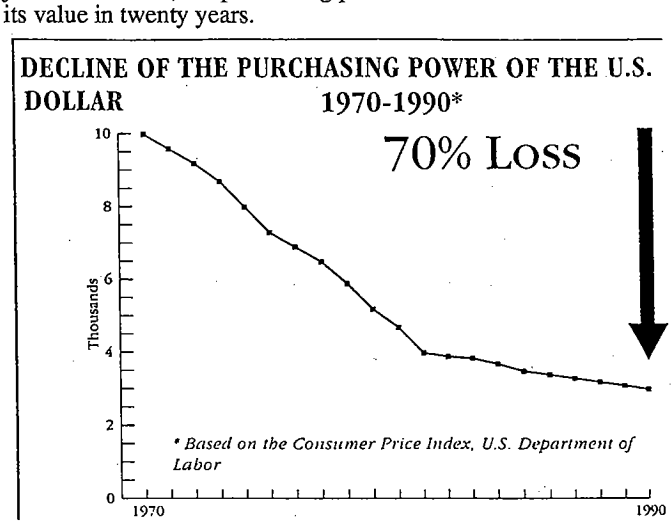
Veteran analyst Tony Tabell of *Delafield, Harvery and Tabell* looked over a column he wrote 20 years ago prior to the historic peak in January 1973. At the time he identified six "over-priced stocks," which were IBM, Avon, Kodak, Polaroid, Sears and Xerox. Now here in 1992 they are selling (adjusted for splits) for less than they were selling for then! Tabell's current list of over-priced stocks -- Home Depot, Coke, Merck, Microsoft, Phillip Morris, Wal-Mart. Russell comment: Wouldn't it be a shocker if these six much-loved stocks weren't any higher in the year 2012?

* *

Want to know the effects of deficit spending and rising debts? Here's a chart showing what's happened to the purchasing power of the dollar since 1970. The effects of inflation -- assuming inflation continues at just 4% and you are currently earning $40,000 a year, in twenty years you will need an annual income of $87,645 to maintain the same standard of living. In other words, at just 4% inflation, the purchasing power of the dollar loses over half its value in twenty years.



Sometimes an example will help people realize what's happened to our money. In 1945, a top sports franchise, the New York Yankees, sold for under $3 million. Now 44 major league players make over $3 million a year.

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I've been saying this for years, but I believe this is the first time I've seen any newspaper do a story on the effects of the deficits, and by effects I mean a lowered standard of living for us and for our children and for our grand-children (this piece is from the April 8 *LA Times).*

Deficit Seen as Threat to U.S. Standard of Living

■ Economy: Past and present heads of Congressional Budget Office present a grim growth forecast.

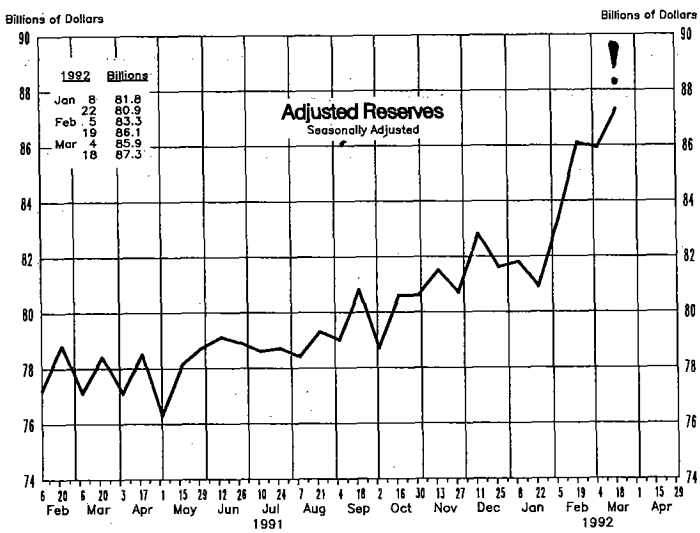
By WILLIAM J. EATON
TIMES STAFF WRITER

WASHINGTON—The nation's chronic, growing budget deficit threatens to lower American living standards in the next decade and "there is no relief in sight," the director of the Congressional Budget Office warned Tuesrapidly with the retirement of the baby boom generation after 2010," Penner said.

"Ultimately, significant cuts in [federal] program spending and increases in tax revenues will be required, . . . but the political barriers to their adoption have been largely insurmountable," Penner said. "I think that we have to give

* *

Is the Fed doing its part to float us out of deflation? You bet. Here's the latest chart of Adjusted Reserves from the St. Louis Fed. Between January 22 and March 18 (latest period) Adjusted Reserves were up at the compounded annual rate of 49.6%. Now that's pumping!



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Did you notice on the Congressional check kiting "revelations" that the amounts of the overdraws were never revealed, only the number of overdraws within given periods of time. These craven political creeps just can't tell us the whole story, they have to hold back on the amounts. Actually, the Congressional "rubber-gate" really doesn't affect the nation's finances one iota. It simply reveals a lot about the character of the people who are supposed to represent us in Washington.

* *

A good friend of mine split with his wife (they were married for 25 years) and left the state. He bought a 700-acre ranch in Colorado. Why Colorado? Well, that seems to be where a lot of people are heading. Telluride, Colorado is the new "in" ski resort, and big money is moving in. Movie writer-producer Oliver Stone is building a little 15,000 square foot home on 1,000 acres he bought in Telluride (price $2.6 million) and Sylvester Stallone is heading a group of investors who paid $3.6 million for 11 lots in the area. Oprah paid $3 million for an 85-acre ranch. So land prices are booming in Telluride and sales have doubled over the last three years. Will this mean the end of Aspen? Absolutely not.

* *

Speaking of Aspen, my old classmate James Salter has lived there since high school. I don't know if Jimmy ever gets on skis, but he did write the classic for skiing, "Downhill Racer," a film which starred Robert Redford (by the way, if you ever get a chance to see this movie on TV, don't miss it, it's one of the great ones).

* *

Last week saw a peculiar ritual. It was Prime Minister Miyazawa of Japan urging leaders of Japan's securities industry to come to the aid of their own equities market. Miyazawa is afraid that Japan's bear market will hurt his and his party's chances of reelection in July. The Prime Minister actually urged industry to raise corporate dividends in the hopes of bringing in new stock buyers and stabilizing the market.

* *

There's a lot of bunk being thrown around about the flat tax. I'm all for it, and I always have been. First, the "rich" would not be able to shelter a dime. The flat tax would be on their gross income. The poor and middle class could depend on a constant rate, which would probably be less than what they're paying now and Social Security payments would be out. Also, all the worry about the IRS and audits and getting a competent accountant would be over. Clinton mocks the flat tax and keeps gabbing about the "middle class." Clinton's idea of the middle class is anyone who's got a vote.

* *

US News & World Report (April 13) features a frightening report on the "Poisoning of Russia." Evidently, the Soviets are an "environmental nightmare" and a "toxic wasteland." Says the magazine, "Communism has left the 290 million people of the former Soviet Union to breathe poisoned air, eat poisoned food, drink poisoned water and, all too often, to bury their frail, poisoned children without knowing what killed them. Even now, as the Russians and the other peoples of the former USSR discover what was done to them in the name of socialist progress, there is little they can do to reverse the calamity; Communism also has left Russia and the other republics too poor to repair the economies and repair the ecological damage at the same time, too unorganized to mount a collective war on pollution and sometimes too cynical to even try."

Examples: "The Siberian forests that absorb much of the world's carbon dioxide are disappearing at the rate of 5 million acres a year, posing a bigger threat to the world environment than the destruction of the Brazilian rain forrest . . . Some 920 thousand barrels of oil -- roughly one out of every ten barrels produced -- are spilled every day in Russia. That is nearly the equvalent of one Exxon Valdez spill every six hours. One pool of spilled oil in Siberia is 6 foot deep, 4 miles wide and 7 miles long."

Russell comment: Ultimately, this will all have to be cleaned up, and the cost will be unimaginable. Who's going to pay for it? Your guess is as good as mine.

* *

It's unlawful to bet on the election here in the US, but British bookies post odds. Here are the odds I got from London last week: Bush -- 4 to 3 (put up three bucks, get back four), Clinton -- 11 to 4, Perot -- 8 to 1 (I like this one), and Brown 20 to 1.

* *

John McGinley (*Technical Trends,* PO Box 792, Wilton, CT 06897) comments on my piece (see last Letter) in which I state that commodity trading is a zero sum game. Sorry, I was wrong. Commodity trading is a negative sum game. In commodity trading (unlike investing in stocks), for every winner there must be a loser, and the reason is the cost of commissions, which I left out. Thanks, John, and yep, the odds on winning in commods are even tougher than I thought.

* *

At least one other analyst agrees with me on China, and it's Kiril Sokoloff, publisher of *Smart Money* and president of 13D Research, Inc. Kiril is coming out with a fascinating study entitled, "China Awakens, The Premier Investment Opportunity of the

1990s?" I don't know if he'll do it, but if you can get him to send you a copy of this study, it's an eye-opener, believe me (Southwest Executive Park, 100 Executive Drive, Brewster, NY 10509).

A paragraph from Kiril's brilliant study: "What happens when a nation with one of the world's fastest population growth rates has the world's fastest increase in personal income? What occurs when a country with a 500 million person work force, a consumer population of over one billion, a long history of commercial instincts, and connections with an offshore ethnically-related population of some 50 million persons who have funds in excess of $350 billion and dominate trade in Southeast Asia, receives word from its political leadership that they want 100 years of 'market oriented reform'?" The answer is economic boom: 20% of the world's population is on the move." Russell comment: The offshore population Kiril is talking about is Hong Kong.

* *

Info about Hong Kong stocks (most of these deal one way or the other with China) is hard to come by, but Merrill Lynch has sent me some pretty good reports. My friend, David Fuller, puts out a point & figure chart book ("International Point & Figure Library") and these excellent charts include forty leading Hong Kong issues [*Chart Analysis Ltd.*, 7 Swallow St., London WIR 7HD or (011) 44-71-439-4961].

* *

Speaking of items to write for, each year for 46 years, H.F. Langenberg (*Smith, Moore & Co.* -- 400 Locust St., St. Louis, MO 63102) publishes his "Fall Notes." This year it's a brilliant 106-page booklet filled with graphs and charts and writings, and it's free. H.F. prints 6,500 of these, and if you can get him to send you one consider yourself in luck.

With his latest pamphlet, Harry Langenberg writes to me, "Dear Richard, I have been getting your service for years and I consider it 'must' reading. It is great in many ways. But one grand flaw, which I, and I suppose many others, have called to your attention, but alas to no avail. You never, never, adjust for inflation. You and all the press shout new highs in the stock market, but when adjusted for inflation, the highs were made in 1966. We still have a whale of a distance to go to equal them. You are always talking in shades of declining dollars.

"And I might add that adjusted for inflation dollars is what counts to the investor. If you bought a stock at $10 a share at the 1966 high, today it would have to go to $43 plus to be even. And if you wanted to sell it and be even after federal and state taxes in order to pay the capital gains tax, it would have to go to $58 plus. And you know just as well as I do, there ain't many that have done that."

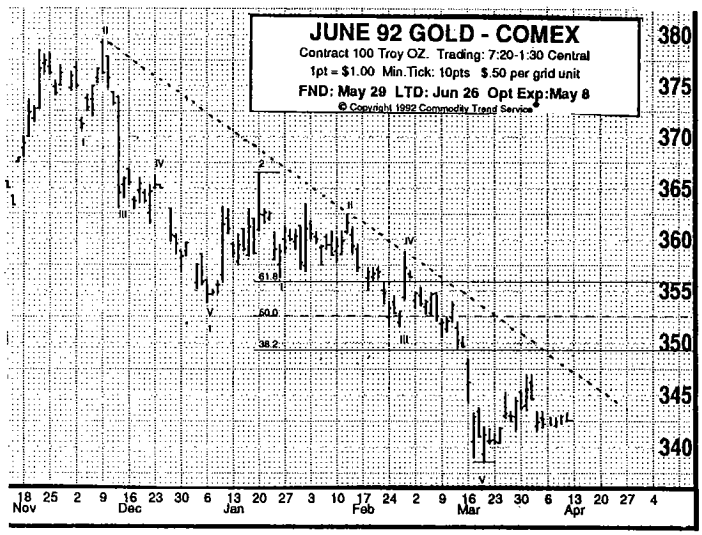
Russell comment: I have always taken the position that stocks and the averages adjust for inflation, but maybe I should adjust my own thinking. Investing in a high-tax, inflation-ridden environment such as ours is a loser for the great majority of people. And that's a prime reason why there's so much discontent in the US today, particularly among the so-called middle class.

Face it, we pay fat taxes, and for the most part all we get for it is BIG government. We re-elect politicians who spend $1.50 for every buck the Treasury takes in -- and who's really to blame? Democracy depends on an informed electorate in order to function. Unfortunately, we don't have an informed electorate. If we did, three quarters of Congress would be packing their bags, and George Bush would be dealing with real problems and acting like a statesman instead of acting like a re-election obsessed politician. So it goes.

GOLD: The latest figure for the national debt is $3.891 trillion. Exactly one year ago that figure was $3.466 trillion. This means that during the last year the national debt has increased by **425 billion,** the largest annual increase so far. How will these massive increases in debt be handled? I don't know exactly, but I know how our government will try to handle them -- it's called inflation.

Was there ever so much loathing, disgust, bad-mouthing and cynicism directed against any item of value? Yep, I'm talking about gold. Nobody has a good word to say about the yellow metal. Over the last few weeks I've seen predictions of gold at 320 and even down to 270. Maybe this is the clincher -- last week you could buy June 350 calls on gold for one dollar (in other words, 100 dollars controls 100 ounces of gold at 350). Let me tell you about leverage. If you bought ten of those calls for $1,000 plus commissions in and out, you would have a call on 1,000 ounces of gold. If, for the sake of argument, something "unexpected" happens and gold suddenly spikes to 400, you would have made $50,000 on an investment of $1,000 plus commissions. Now mind you, I'm not telling you to run out and buy 350 June calls, but I'm saying that the psychology regarding gold is so negative that the calls on gold are going for practically nothing (well, for very darn little).

Meanwhile, two weeks ago the June gold contract broke below 340 and closed below that level for one day. Then gold rallied rather feebly to close last week at 342. A declining trendline can be drawn on June gold connecting the December peak and the February rally peaks. June gold would have to close above 350 to reverse that trendline.


JUNE 92 GOLD - COMEX
Contract 100 Troy OZ. Trading: 7:20-1:30 Central
1pt = $1.00 Min.Tick: 10pts $.50 per grid unit
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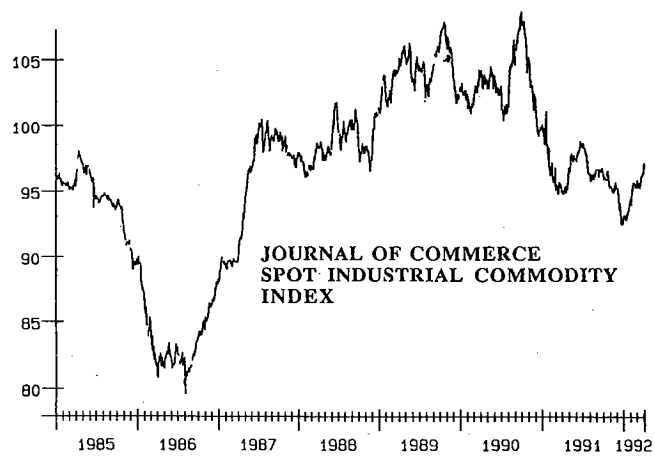
Interestingly, on the recent gold weakness neither silver not platinum nor palladium confirmed on the downside. The Fed continues its reinflation policies for all their worth, and who knows, the balloon may be starting to expand again. Ed Hyman's chart shows the Journal of Commerce's Spot Commodity Index turning up on a year-to-year basis, and bank reserves are spiking higher. The next thing I'd expect is for Alan Greenspan to announce that he and his family are actively buying mutual funds.



LATE NOTES: Considering the fiasco in Japan, the US market has not done badly. The strength of the US market, however, has been the Dow. The Transports (which reflect sales, shipping and travel) continue to be the weak sister. Meanwhile, Greenspan is trying to give money away, but, so far, he's having trouble doing it.

NEXT MAILING: April 29, 1992